

Title	LOCAL ENTREPRENEURS AND REGIONAL DEVELOPMENT IN NAKHON RATCHASIMA, NORTHEAST THAILAND
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Citation	重点領域研究総合的地域研究成果報告書シリーズ：総合的地域研究の手法確立：世界と地域の共存のパラダイムを求めて (1996), 30: 123-138
Issue Date	1996-11-30
URL	<a href="http://hdl.handle.net/2433/187671">http://hdl.handle.net/2433/187671</a>
Right	
Type	Journal Article
Textversion	publisher

# LOCAL ENTREPRENEURS AND REGIONAL DEVELOPMENT IN NAKHON RATCHASIMA, NORTHEAST THAILAND

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## 1. Characteristics of Local Entrepreneurs in Khorat

The characteristics of local entrepreneurs in Khorat can be summarized by the following points. These are drawn from field research that I conducted in Thetsaban Muang Nakhon Ratchasima (from February 1991 to February 1992). Part of my research consisted of interviewing the most influential entrepreneurs (46 individuals) in Khorat. The details of this study are contained in Chapter 3, Ueda 1995.

### *1-1. Dominance of Chinese Descendants*

Nearly 90 percent of business leaders in Khorat are Chinese immigrants and their descendants. Teochiu Chinese command an overwhelming majority among the Chinese speech groups, as is the case in the whole country. However, their consciousness of being Chinese is decreasing as Thailand-born Chinese descendants become more and more dominant.

### *1-2. Small-Scale Businesses Run by Family*

Most of the businesses managed by local businessmen are small-scale. According to a company directory which lists the largest 1,111 companies in Thailand, only two companies which were managed by local entrepreneurs in Khorat were ranked among the top 1,111 companies in terms of sales, profits, and

assets in 1988. One of these two was a factory which produces automobile parts, and the other was a distributor of petroleum products.

Small-scale family business has traditionally characterized Chinese business practices elsewhere in Asia. In the early stages of settlement, newly arrived Chinese had no choice but to start a small business which involved the whole family. This preference for family businesses can also be explained by the fact that family members can be trusted because "kinship relations are the irreducible jural and moral relations" [Landa 1981: 358]. Chinese tend to retain this preference for family involvement in their businesses even after their businesses grow.

### *1-3. Weakness in Manufacturing and Preference for Commerce and Service, Few Exportable Manufactured Products*

Decision-making is highly centralized in family businesses. Therefore, generally speaking, Chinese business people prefer sectors where decision-making is easily centralized, such as real estate and retailing. Almost all my interviewees in Khorat are involved in, or have experiences in shopkeeping more or less.

In Khorat, only a very small number of local entrepreneurs are engaged in high-valued manufacturing products which are exportable. This weakness in manufacturing can be attributed not only to a lack of technology, but also to the Chinese preference for family businesses. This is because highly-centralized management is at a disadvantage in operating manufacturing which needs sophisticated technology and complicated management.

Chinese entrepreneurs can overcome technological problems through joint ventures with foreign companies. This is the way which most of the Sino-Thai business groups have taken in launching into the manufacturing sector. However, in Khorat, there were exceptionally few entrepreneurs who sought technical cooperation from foreign enterprises.

### *1-4. The Importance of Creditworthiness in the Local Business World*

Local entrepreneurs in Khorat place great importance on creditworthiness

in doing business. This means that they conduct business transactions relying on mutual trust. This mutual trust is established through personal and particularistic exchange-relations in the local community. Chinese associations based on dialect, birth place, and surname were once a means through which Chinese businessmen showed to what extent they have established credibility, and through which they acquire information about their potential trading partners at a low, or virtually zero, cost.

In an environment where the legal system is not well developed, entrepreneurs have to cope with the problem of contract uncertainty by arranging non-legal institutions which constrain traders from breaking their contracts. Personalized exchange relationships based on mutual trust among the members of Chinese associations was such a device which in the past substituted for contract law and increased the efficiency of economic activities.

However, nowadays, contrary to local Chinese associations, which are becoming less significant in business circles, trade societies and nationwide organizations, such as the Chamber of Commerce, are becoming more important and have begun to fulfill the role of screening members.

In general, as the legal framework is developed, personal exchange networks are gradually replaced by contract enforcement based on law. However, in a provincial city like Khorat dense person-to-person informal relationships still function as an important means of constraining breach of contract, compared with Bangkok, where impersonal exchange relations through market mechanisms are dominant. This point will be discussed again in Section 3.

#### *1-5. A Remote Relationship with Foreign Capital*

As mentioned in 3), a remote relationship with foreign countries prevents local entrepreneurs in Khorat from seeking technical cooperation with foreign companies, and from launching into new manufacturing sectors.

Khorat enjoyed almost no foreign investment until about 1990, when foreign companies began to operate in the Suranaree Industrial Zone, a privately-operated industrial zone. After that, the inflow of foreign capital, mainly from Japan and

Taiwan, seemed to become a steady stream in this city. However, direct foreign investment established few, if any, close links with local industries. Local entrepreneurs in Khorat provided export-oriented foreign investors with scarcely any of the materials, parts, or machines necessary for production.

In Cambodia and Laos, where Teochiu Chinese are dominant among Chinese and Chinese descendants, Thailand is one of the largest foreign investors (perhaps due to connections among Teochiu Chinese). However, I found only one local entrepreneur in Khorat who has a definite plan to invest overseas, although some did express an interest in investing in Indochina in the future.

#### *1-6. Entrepreneurs Seeking Political Patronage from Bangkok*

In Khorat, the movement of local entrepreneurs in seeking political patronage from Bangkok takes several forms, besides direct financial support for politicians.

First, influential politicians who have held high-ranking posts in the Cabinet participate in large business projects in Khorat. Ex-prime minister Chatichai Choonhavan is involved in the establishment of a private industrial zone, and Suwat Liptapallop, a member of parliament, belonging to the Chart Pattana Party at present, is one of the largest shareholders in a luxury hotel in Khorat.

Secondly, several outstanding local entrepreneurs formed a political body in order to support candidates for seats on municipal council (so. tho.) and provincial council (so. co.) The striking feature in their cases is that they have not run in local elections in person, but instead have had their children stand as candidates. Their political body was so successful in local elections as to exert a great influence on local politics in Khorat. These influential businessmen regarded, to some extent, local politics as an initial step toward the political world in Bangkok: that is, candidanship in general election.

The tendency for wealthy provincial entrepreneurs to launch into local politics has become pronounced after the period from 1973 to 1976, when Thailand saw the development of electoral politics. Electoral politics demands large outlays from candidates for election campaigns in order to win votes. This is one of the

reasons why well-to-do businessmen began to move into politics from this time. In Khorat, it was from the 1980s that local businessmen began to launch into local politics and grew to be an overwhelming power.

Thailand has a highly-centralized system of provincial administration. Today's system of provincial administration is based on Thesaphiban system, which was established in 1894 by Prince Damrong Rajanubhab, and the characteristics of the centralized administrative system have changed little since then. Important decision- and policy-making are mostly carried out in Bangkok by central government agencies.

Because of this centralization of political power in Bangkok, Bangkok-based entrepreneurs were able to enjoy advantages over provincial entrepreneurs in seeking political patronage for several decades. This ability was strengthened with the process of centralization during the period from 1958 to 1973, when Thailand was governed by a military-dominated authoritarian government. The most explicit example was found in the intimate relationship between the army and commercial banks. During this period, almost all Sino-Thai banks offered posts on their board of directors to influential military officials. These military officials received rewards, for instance, in the form of allowances for attending meetings, bonuses, and dividends. It is plausible to argue that, in exchange for these rewards, commercial banks received protection from competition, such as restraints in new entry. After the Cabinet passed a resolution in 1955 calling for restrictions on the approval of new banks, the establishment of only two banks, the Thai Military Bank (1957) and the Asia Trust Bank (1965) were allowed throughout this period.

After 1973, when Thailand saw the development of electoral politics, provincial wealthy businessmen were able to seek political connections through launching into politics.

#### *1-7. Discontinuity of Chinese: the Special Circumstances to Khorat*

During the Second World War, those who did not possess Thai nationality were forced to leave Amphoe Muang Nakhon Ratchasima because an army base was located there. According to an old Chinese businessman in Khorat, all Chinese

who were not naturalized Thai disappeared from Khorat as a result of this prohibited-areas policy, and only a few of them returned after the war. He stated that a great number of Chinese had to leave and that they dispersed all over the country.

This policy imposed hardships on Chinese business activities in Khorat. Chinese aliens were forced to suspend their economic activities and were deprived of what they accumulated through their businesses. Since only a few of these Chinese people returned to Khorat after the war, it follows that the continuity of Chinese society in Khorat was largely disrupted. My research shows that many of the economic leaders of Khorat were not born locally.

The economy of Khorat, like that of other provincial economies, made progress through the frequent migration of talented Chinese individuals from Bangkok and other regions. My research in Ratchaburi Province in 1989 [上田 1990] found that the local textile industry had its origin in small-scale manufacturing that was started by Hakkas who had moved from Bangkok by the second half of the 1930s. Today, some of these textile companies, though very small in number, have developed an exporting industry. These Hakka Chinese gained experience and know-how by working in Chinese-run textile factories in Bangkok. This suggests that manufacturing in local provinces was established by Chinese who had initially gained technical know-how in Bangkok and then become widely dispersed over the country several decades before 1960, when the Thai government introduced an industrialization policy.

However, the eviction of Chinese nationals brought the Khorat economy to a standstill for several years in the 1940s. Furthermore, this eviction would have had a hampering effect on any budding manufacturing sector, if indeed the formation of a local manufacturing sector, such as the textile industry, was underway. The lack of locally-developed manufacturing in Khorat might be attributed to this discontinuity of the Chinese.

Although my viewpoint about local entrepreneurs is based on my research in Thetsaban Muang Nakhon Ratchasima, I believe that the situation of other provinces is more or less similar to that of Khorat. Furthermore, local

entrepreneurs in Khorat share many characteristics in common, to some extent, with those that have been observed in overseas Chinese in other Asian countries (particularly points 2, 3, 4 and 6).

## 2. The Establishment of a Bangkok-Concentrated Economy: The Contribution of Local Entrepreneurs to Economic Growth in Thailand

### *2-1. Factors Creating a Bangkok-Concentrated Economy in Thailand*

#### 2-1-1. Geographical Conditions

Bangkok has increasingly become the important economic center of Thailand since Thailand entered the world economy in 1855. This is because the Thai economy has basically grown through expanding exports of primary products such as rice since that time, and because the port of Bangkok has been the pre-eminent international port in Thailand (which can largely be attributed to the geographical nature of Bangkok).

Bangkok (Bangkok-Thonburi), which is located near the mouth of the Chaophraya River, became the capital of the kingdom in 1767. The good port location may well have appealed to the political authorities in deciding the site of the capital. The port of Bangkok became increasingly significant when rice exports expanded sharply after the Bowring Treaty of 1855. The importance of Bangkok has not decreased since that time.

Geographical conditions strongly influenced economic development in Thailand. "Thailand is a rather isolated country which opens only towards the sea" [Donner 1978:4]. Thailand is divided from Burma and Cambodia by distinct mountain chains, and from Laos by the huge Mekong River. These form natural boundaries which make surface transport difficult. In contrast to these land routes, the broad opening to the sea, that is, the coasts and ports of Thailand, permit easier access. In terms of the effect on the Thai economy as a whole, the Bangkok-Chaophraya River has been the trunk line of transportation in Thailand. The favorable location for a port on the Chaophraya River, which was the best access



point to Thailand from the sea, enabled Bangkok to develop into the dominant port.

Geographical conditions are the comparative advantage which makes Bangkok a transport node in Thailand. All transportation networks have been constructed with Bangkok at the hub and extending from Bangkok in many directions throughout the country. Accumulative investment in transportation facilities and networks can be seen as being a continuously influential comparative advantage for Bangkok, enabling her to attract people and economic activities.

As urban economics explains the rationale for the existence of cities, Bangkok arose because "people have found it advantageous to carry on various activities in a spatially concentrated fashion" [Mills and Hamilton 1994: 7]. In other words, because scale economies enable people to generate higher returns on investment in urban areas than in rural areas, the Bangkok-concentrated economic structure has been formed.

Until comparatively recently, when congestion began to impose increasingly higher costs on entrepreneurs in managing businesses in Bangkok, Bangkok-based entrepreneurs and foreign investors had few incentives to locate (or move) their businesses in (or to) the provinces. The government's recent policies to promote investments in the outer provinces can be seen as an attempt to cut production costs in these provinces and to stimulate investment there. Before such policies were enacted, the provinces attracted "only those sectors with scale economies that were exhausted by the demands of small populations" [Mills and Hamilton 1994: 15], such as small-scale retail trading. If successful entrepreneurs in the provinces desire to expand their businesses, they have in the past moved to Bangkok, which can support large-scale industries whose scale economies are exhausted only by the demands of a larger population. Their decision to move to Bangkok can be explained by the cost advantages such as economies of scale and the reduction of transport costs which Bangkok offers them.

Provinces can contain some large-scale industries, from a viewpoint of production costs. Transport cost-oriented industries, such as sugar factories and tapioca processing industries, are induced to locate at or near an input source because an input is costly to transport. The reason why Khorat has a successful

businessman in tapioca processing can be explained by the fact Nakhon Ratchasima Province is one of Thailand's cassava-producing centers.

## 2-1-2. The Concentration of Political Power in Bangkok

Access to political power was far easier for Bangkok-based entrepreneurs than for provincial ones because, in Thailand, political power has traditionally been concentrated in Bangkok as mentioned in 6 of Section 1. Particularly during the period from 1958 to 1973, the concentration of political power was enhanced. This left little room for provincial entrepreneurs to have their business interests reflected in the national budget and policy-making, until at least the political climate became open in 1973, and provincial businessmen began to launch into politics.

The concentration of political power in Bangkok has also been a great disadvantage to provincial entrepreneurs vis-a-vis their Bangkok-based counterparts. Provincial businessmen have had difficulties in seeking the political patronage which might be useful for their business success. Especially during the pre-1973 period, some Bangkok-based entrepreneurs acquired large returns through close relationships with politically-influential figures, which functioned as a springboard in expanding their businesses. Typical examples of this were found in the commercial banking sector. (See 1-6.)

## 2-2. *The Contribution of Local Entrepreneurs to Economic Growth in Thailand*

The growth of the manufacturing sector and the export of manufactured products are seen as the most significant factors in the process of economic development in Thailand. Based on the results of my research in Khorat, economic backwardness in provincial economies in Thailand can be best summarized in the following three points; small-scale business, weak manufacturing, and few exportable manufactured products. These points suggest that the contribution of provincial entrepreneurs to the economic development of Thailand as a whole have not yet been great.

The contribution of Nakhon Ratchasima Province to the Thai economy can be examined by reference to national income statistics. According to Table 1, Nakhon

Ratchasima Province held a stable proportion of 4.1 or 4.2 percent of the kingdom's population throughout the 1975-1990 period. On the other hand, its share of the GDP decreased: from 2.4 percent in 1975 to 2.2 percent in 1980, and to 1.8 percent in 1990. The reverse phenomenon, that is, an increase in the GDP and population ratio, happened in Bangkok and her vicinity (five neighboring provinces). The increase in the share of the GDP by Bangkok and vicinity from 1975 was particularly marked, while the GDP and population growth in Bangkok Metropolis was sluggish.

**Table 1. The Share in GDP, Population, and per capita GDP: Nakhon Ratchasima Province, the Northeast, Bangkok Metropolis, and Bangkok and Vicinity, 1975, 1980, 1985, and 1990**

Year	NR Province	Northeast	Bangkok Metropolis	Bangkok and Vicinity*	Whole Kingdom
<b>GDP (%)</b>					
1975	2.4	17.2	29.3	36.8	100.0
1980	2.2	15.0	34.8	42.4	100.0
1985	2.1	13.9	35.9	46.2	100.0
1990	1.8	11.6	39.4	52.2	100.0
<b>Population (%)</b>					
1975	4.1	35.1	9.9	14.1	100.0
1980	4.2	35.2	10.4	14.8	100.0
1985	4.2	34.9	10.8	15.5	100.0
1990	4.1	34.5	11.0	16.0	100.0

Source: Ueda [1995: Table 3]

Note: GDP at current market prices.

\* Bangkok Metropolis, Samut Prakan, Pathum Thani, Samut Sakhon, Nonthaburi, and Nakhon Pathom.

During this period, economic activities in Bangkok began to move to suburban areas, and new investments poured not into Bangkok but also into her neighboring provinces. This tendency seemed to strengthen when Thailand experienced two-digit economic growth during the period from 1988 to 1990. In 1990, Bangkok and the five neighboring provinces, with 16 percent of the Thai population, produced more than half of the GDP.

Judging from this data, with the growth of economy, economic activity in Thailand still continues to be concentrated in Bangkok and, particularly now, her neighboring provinces, what is called 'the Greater Bangkok Economic Zone.' Once established, it may be thought that it would be difficult to change the Bangkok-concentrated economic structure. This is because accumulated wealth increasingly adds to the comparative advantage of Bangkok, which enables Bangkok to increase its wealth furthermore. It is fair to say that economic growth in Thailand has proceeded so far, taking the form of spatial expansion of 'the Greater Bangkok Economic Zone.'

Nowadays, the Thai economy shows signs of decentralization because of the prohibitive costs faced by entrepreneurs in carrying out business activities in Bangkok, and because the costs of managing businesses in the provinces have been cut through government policies to promote investments in the outer provinces.

However, the economic growth of Bangkok, not that of the provincial economies, has given rise to this decentralization. The driving force which has increased investment in the provinces mainly exists in Bangkok capital and foreign capital. Economic decentralization in Thailand should be regarded as part of the expansion of the Bangkok economy, not as a sign of remarkable development in the provincial economies. The contribution of provincial entrepreneurs to the economic development of Thailand has been limited so far.

### 3. The Niche of Local Entrepreneurs: Competition and Symbiosis with Bangkok-Based Entrepreneurs

It is difficult to imagine that the Bangkok-centered economic structure is in grave danger of collapse in the immediate future. However, it is also true that provincial entrepreneurs still enjoy an advantage over their counterparts in Bangkok. In order to make this point clear, I would like to divide the economic order into three institutions, that is, market, government, and community.

In the standard argument of economics, economic systems are composed of two mechanisms: market and government. The market is the place where the optimal allocation of resources is achieved through free transactions among individuals who act solely in the pursuit of private gain. When the allocations attained through markets are not efficient, market failure occurs. This is often said to justify government intervention in the market, so that public goods can be provided by the government.

Although many economists frequently make comparisons of the advantages of market mechanisms vis-a-vis the government, I would like to avoid discussing the government any further, and instead focus attention on a third institution, which plays an important role which neither market nor government can fulfill, and acts to support them. This is 'community.' Community is a group which is constituted by a relatively small number of individuals who are connected by something common to all of them, such as kinship or place of origin. People who are living in a village constitute a village community, and Chinese associations form communities on the basis of birth place, ethnicity, or family name. These communities are characterized by intense person-to-person informal networks among members. This is in contrast with market mechanisms where impersonal networks and 'arm's length' relationships are evident.

In the marketplace, price transmits the information necessary for trading to each individual. On the other hand, in communities, membership can send signals regarding trustworthiness to other members. In communities, "if  $v_1Tv_2$  (read:  $v_1$  trust  $v_2$ ), and  $v_2Tv_3$ , then  $v_1Tv_3$ " [Landa 1981: 360]. This personal network of

community enables members to acquire information about the trustworthiness of other members who may be potential trading partners at a very low cost. Community membership economizes transactions costs, which is defined as the additional costs of doing business such as the cost of collecting information and decision-making costs.

The reduction of transactions costs is a crucial problem for entrepreneurs in today's economy, where transactions costs absorb a substantial proportion of national product where entrepreneurs are forced to incur heavy transactions costs, business efficiency is spoiled. Provincial entrepreneurs have an advantage over their Bangkok-based counterparts, in that it is possible for them to reduce information costs through personal relations within their communities.

It may be difficult for Bangkok-based entrepreneurs to enjoy this advantage through informal networks because Bangkok contains too large a population to be governed by the rules of community, that is, relationships based on mutual trust. Market mechanisms are the dominant force in the Bangkok economy.

Local entrepreneurs can be competitive with Bangkok-based ones to the extent that they manage to best exploit the advantages of the community. Unlike entrepreneurs in Bangkok, who operate solely in the impersonal and anonymous 'extended order' of the market, provincial entrepreneurs enjoy access to an order that is based on close and personal relationships within local business circles, and the credibility which is established through these close relationships.

This advantage is of course greater than in some sectors of the economy than in others, and therefore local entrepreneurs will be successful to the extent that they concentrate on areas where this advantage is greatest.

One area where the community enjoys an advantage over the market is where the costs of drawing up contracts, that is transaction costs (or information costs), are very large. One typical case in point is the financial sector. Credibility and trustworthiness among businessmen can compensate for imperfect information in the market, and increase business efficiency through the reduction of transaction costs.

In August 1996, the cabinet accepted the Finance Ministry's proposal to

grant new banking licenses to three consortia. One of the winning bidders is a consortium which is headed by MBK Property Development PCL, and plans to establish the Ratchasima Bank PCL, with headquarters in Nakhon Ratchasima. It may be difficult to challenge the established branch networks of Bangkok-based banks. However, if this new bank can make full use of personal networks in the business community of Khorat, the potential of this bank will be great.

Table2. Bangkok and the Provinces

	Bangkok	Provinces
Institution	Market	Community
Relationships	Impersonal/Abstract	Personal/Concrete
Rules	Law	Custom
Means of Enforcement	Legal Enforcement	Ostracism/Mutual Trust
Information Transfer (regarding Creditworthiness)	Price Mechanism/ Past Records	Word-of-Mouth

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